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- European Community's Third-Country Partnerships —The Lomé Convention

African bananas

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This week's cover:

African bananas are among many agricultural products covered by the Lomé Convention, which is discussed in detail in the first of a 3-part series on the EC and its special trade arrangements with third countries.

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Part I—the Lomé Convention

The EC and Its Special Third-Country Partnerships

By OMERO SABATINI
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Above, a pile of freshly picked Ethopian coffee beans ready to be spread for drying. Right, drying hides in a rural tannery in the Sudan, and, below, peanuts in Benin are stacked on wooden frames for drying. Ethopian coffee, Sudanese hides and skins, and Benin peanuts were among products receiving EC funds in 1975 under the STABEX system for stabilizing exports from Lomé Convention countries.

IN THE PAST several months, the European Community (EC) has concluded several economic cooperation and trade agreements with a number of foreign countries. This is part of the EC's long-term policy to strengthen relations with certain nations with whom EC Member States have had traditionally close ties. In fact, the formation of an EC network of trade agreements and preferences has been underway since the Community was established in 1957.

EC policies on international agricultural trade are determined primarily by the principle of Community preference, embodied in the EC's Common Agricultural Policy (CAP). This requires that within the Community, non-EC farm products should always be more expensive and more difficult to purchase than EC-produced farm goods. Essentially, all international agreements concluded by the EC reflect this basic concern. However, this does not prevent the EC from granting farm products from certain third countries more favorable terms than those given to goods from other non-EC sources, including the United States.

Conclusion of the numerous EC agreements has proceeded independently of both the Multilateral Trade Negotiations in Geneva and the discussions on the proposed new economic order held by the U.N. Conference on Trade and Development (UNCTAD). Nevertheless, the setup emerging from the series of EC economic agreements is likely to have some impact on the evolution of the UNCTAD-sponsored proposals and should influence future trade relations between all developed and developing countries, as well as between Western Europe and the rest of the developed world.

Negotiations are now underway with Greece for that country's full membership in the EC, and Spain and Portugal may join in the next few years. Some observers anticipate that in a decade all of Western Europe will be included in the EC, provided that the Community can achieve closer monetary cooperation and thus eliminate or reduce taxes and subsidies on intra-EC agricultural trade.

Regarding the principal U.S. farm exports to the EC, the restrictions set up by the CAP itself are by far the most important policy-related obstacle to further expansion of U.S. sales. EC concessions to third countries are probably more in the nature of irritants than of insurmountable obstacles. However, these concessions have had a seriously adverse impact on U.S. exports of commodities such as tobacco, citrus products, and other processed fruits and vegetables and at times have virtually shut U.S. exporters out of EC markets.

EC international agreements giving preferences on agricultural products have been concluded with four broad groups of countries: (1) The members of the Lomé Convention; (2) the countries bordering the Mediterranean Sea; (3) developed countries excluding both the United States and the non-EC developed Mediterranean countries; and (4) all other foreign countries.

The agreements with the first two groups are perhaps the most pervasive. Concessions to the non-Lomé, non-Mediterranean developing countries are made largely through the EC's Generalized System of Preferences.

THE LOMÉ CONVENTION

The Lomé Convention, named for the city where it was concluded in February 1975, regulates trade and overall economic relations between the EC and 49 African, Pacific, and Caribbean countries (ACP's). Nearly all of these countries are former colonies of EC members.

The Convention became fully operative in April 1976, but its trade provisions went into effect July 1, 1975, under interim arrangements. These provisions will remain in effect until March 1, 1980, when the Convention is likely to be renewed. Negotiations to determine EC-ACP relations beyond 1980 are to start 18 months before the Convention expires.

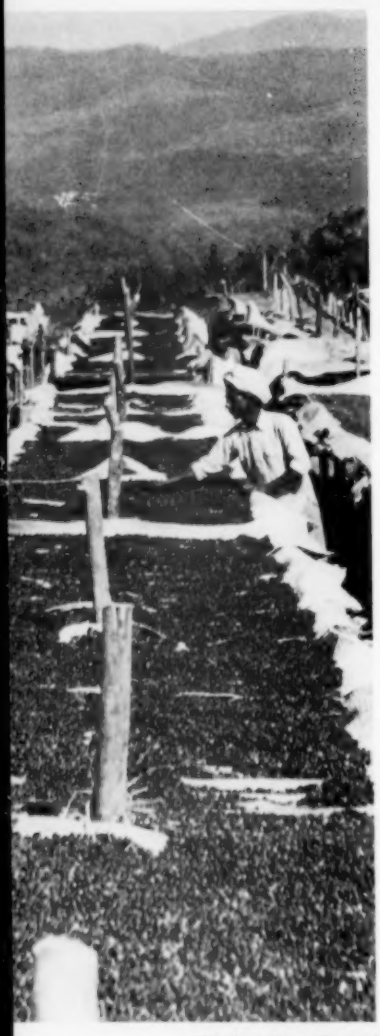
The Convention was originally signed with 46 countries, and in November 1976 was extended to three more newly independent countries (Surinam, Seychelles, and Comoro). Three more small nations may join in the near future. Some of the provisions of the Convention also apply to the overseas departments of EC members.

The ACP's present population totals about 268 million. Nigeria, the largest country, has nearly 80 million people. Seychelles, the smallest, has about 60,000. The ACP's include most of independent Black Africa (39 countries), seven countries of the Caribbean—Jamaica, Bahamas, Barbados, Grenada, Guiana, Trinidad-Tobago, and Surinam—and three small nations of the South Pacific—Fiji, Tonga, and Western Samoa.

Total EC agricultural imports from the area covered by the Lomé Convention jumped from $2.5 billion in 1973 to $3.6 billion in 1975. Coffee, cocoa, tea, and spices account for about half of the value, followed by sugar ($308 million in 1973 and $694 million in 1975), fruits and vegetables ($397 million in 1975), fats and oils ($292 million), natural fibers ($220 million), and oilseeds ($219 million). Imports of cereals averaged $7 million in 1973-75, and those of meats, $25.6 million.

Of the total $3.6 billion imported from the

The EC today has special trading arrangements with numerous countries, three of which anticipate joining the EC sometime in the future. This article—focusing on the countries of the Lomé Convention—is the first of a three-part series on these special arrangements and what they mean to U.S. farm trade. The second article will describe the EC Mediterranean policy, and the third will deal with EC trading arrangements with the remaining foreign countries.



Work-unit method of sun-drying Ethiopian coffee. Ethiopia received most of the 13.2 million u.a. in EC funds going toward stabilizing Lomé Convention coffee export earnings in 1975.

Lomé Convention area in 1975, $3.34 billion came from the ACP countries and $246 million from the overseas departments of EC members.

The Lomé Convention extends some of the intra-Community benefits to the ACP's and supersedes all prior arrangements between the EC and the ACP's such as the Yaounde Convention, the Arusha Agreement, and Commonwealth preferential arrangements. A number of countries—such as Ethiopia, Liberia, Equatorial Guinea, and Sudan—had no special or preferential trade relationships with the EC when the Convention was signed.

The basic aim of the Convention is to promote the economic development of the ACP's. Thus, the Convention includes provisions for financial, technical, and industrial cooperation, as well as for trade cooperation.

As a matter of fact, financial and technical cooperation is the most important aspect of the Convention, at least as far as economic benefits to the ACP's are concerned. The EC will make available to the ACP's a total of 3.4 billion units of account (u.a.) for financial and technical aid,[1] over the next 5 years.

The main features of the trade provisions are:

- Elimination or reduction of duties on ACP exports to the EC;
- Introduction of the so-called stabilization of export earnings; and
- Establishment of quotas and guaranteed minimum prices for ACP sugar sold to the EC.

Signers of the Convention also committed themselves to carrying out trade promotion activities in order to provide maximum benefits for the ACP's. This includes ACP participation in international trade fairs and exhibitions.

All trade and tariff concessions have been made by the EC on the basis of nonreciprocity. ACP countries will determine individually whether or not to grant reciprocal preferential treatment to the members of the EC.

Trade concessions

About 99 percent of total ACP exports to the EC (by value) have gained duty-free and virtually unrestricted entry. All nonagricultural goods from the ACP's enter free of duty and similar charges and are not subject to quantitative restrictions.

An estimated 94 percent of the value of the farm goods, also enters free of duties and equivalent charges. Of this 94 percent, 22 percent consists of sugar—which, however, is subject to quantitative restrictions—and 72 percent is made up either of products not regulated by the CAP, or of products for which Community provisions consist only of customs duties. The Convention specifically states that the customs duty shall not be levied on ACP products falling in the latter group.

The remaining 6 percent of ACP agricultural exports to the EC consists of CAP-regulated products that are subject to import regulations broader than common customs duties, such as the variable import levy. Even these commodities in some cases receive more favorable terms than those accorded to the same goods from third countries. However, as a general rule, no concessions are granted on products subject to the CAP when such concessions would enable ACP products to compete effectively with those of EC member countries.

Beef and related products. Under normal arrangements, all ACP beef and veal products covered by EC common market regulations are exempt from customs duties but subject to the variable levy. Products to which the variable levy applies include beef and veal (fresh, frozen, or salted, in brine, dried, or smoked), edible offal (salted, in brine, dried, or smoked), and some other meat preparations containing bovine meat or offal.

If imports of fresh, chilled, or frozen beef and veal from any ACP country exceed the largest quantity imported in any year during 1969-74 plus an annual growth rate of 7 percent, the exemption from customs duties for the country involved is partially or totally suspended.

On the other hand, corrective action is taken if exports of beef to the Community decline below traditional levels. The EC has also agreed that if it imposes general restrictions on imports of beef it will maintain a certain volume of imports from the ACP's. Ever since the Lomé Convention has been in effect, the EC has placed strict limitations on quantities of beef imported. These are scheduled to be lifted effective April 1. While general restrictions were in effect, the EC authorized special quotas for Botswana, Madagascar, Swaziland, and Kenya.

During July 1976-December 1977, import quotas of about 27,500 tons, product-weight, were allocated to these countries, with 17,360 tons set aside for Botswana and 130 for Kenya. The EC receives only 10 percent of

[1] The EC uses different units of account (u.a.) for different types of transactions. The u.a. used for financial assistance, including stabilization of export earnings, is called the European or "basket" u.a.; its rate of exchange to the U.S. dollar is announced daily. In mid-January 1977, one European u.a. was worth about $1.12. The u.a. used for collecting import levies is called gold-parity u.a., or just u.a. Its rate of exchange to the U.S. dollar is announced weekly and in mid-January equalled about $1.36.

the variable levy paid on these imports. The remaining 90 percent is collected by the governments of the exporting countries as an export tax.

EC beef imports from all outside sources in 1976 are preliminarily estimated at 200,000 tons, carcass weight, compared with 800,000 to 900,000 tons per year prior to the 1974 imposition of global restrictions. Normally, Latin America, Oceania, and Eastern Europe are by far the largest exporters of beef to the EC.

Oilseeds and products. Principal EC imports in this group are soybeans, other oilseeds, oleaginous fruit, and oil cake and meal These imports enter the EC free of customs duties and variable levies, regardless of country of origin. Imports of olives and olive oil are subject to an EC variable levy, but the ACP's receive no concessions on these products. The duty on olives is also payable in full.

However, no duty is due on certain other goods, including palm oil—a product that is gaining competitive strength in the EC vis-a-vis oils from soybeans imported from the United States. The EC has also indicated that it will take appropriate action in the event of "appreciable" drops in imports of oilseeds and oleaginous fruit for crushing from the ACP's.

Grain, rice, and their products. For the ACP's the variable levy on corn is reduced by 1.5 u.a. per ton; and that on sorghum and millet, by 50 percent. The variable levy on rice is reduced by 50 percent and by a further 2.5-4.5 u.a. per ton (depending on the type and quality of rice). However, the variable levy is payable in full if the levy-paid prise is lower than the threshold price by more than specified small amounts. The reduction in the levy may also be suspended or lowered in cases of unusual increases in imports from one country.

EC imports of ACP grain (including rice) are of relatively little significance in terms of total EC requirements. Nevertheless, sales to the EC can be of considerabie importance to the economy of some of the ACP's, as in the case of corn for Kenya and Malawi, and rice for Madagascar.

In 1973-75, total EC imports of corn from non-EC sources averaged 12.6 million tons; those of rice and sorghum, 394,000 and 1.3 million tons, respectively. The ACP's provided 9,300 tons of corn, 6,900 of rice, and 16,500 of sorghum. In the same period, the EC imported from the United States an average of 10.6 million tons of corn, 169,000 of rice, and 671,000 of sorghum.

A number of grain and rice products, such as flour and starch, are normally subject to both a fixed and variable levy, but imports of these goods from the ACP's do not pay the fixed component of the levy.

Fresh and processed fruits and vegetables. Imports of ACP fresh or dried oranges, tangerines, mandarins and some other fruits in this category (EC tariff number 08.02) pay only 20 percent of the regular customs duty. Crops such as grapefruit, pineapples, green peas, green beans, and sweet peppers pay no duty at all.

Complete exemption from customs duties also applies to processed fruits and vegetables covered by the EC Common Market organization. In addition, the sugar-added levy is waived for several of the processed fruits and vegetables, including certain types of pineapple juices and preserves and some fruit juices and fruit mixtures.

Unmanufactured tobacco. No duties are due, but the EC reserves the right to take corrective action in case of sharp market disruptions.

Other products. Numerous processed foods are subject to levies consisting of fixed and variable components (EC regulation 1059/69), for products containing either grain, milk or cream, butter, beet or cane sugar, or molasses. All the products listed in regulation 1059/69 are exempt from the fixed component of the levy if they originate from the ACP's, but only some of them, such as white chocolate, are exempt from the variable component.

Stabilizing export earnings

The system for the stabilization of export earnings (STABEX) has often been acclaimed as the most important innovation of the Lomé Convention and as a major breakthrough in economic relations between developed and developing countries.

STABEX provides for government-to-government transfers of funds in the form of loans or grants when specified declines in export earnings from certain commodities occur. Thus, the system guarantees a minimum revenue for the exporting country as a whole—if not for the exporter and/or the producer. However, stabilization of export earnings is somewhat of a misnomer.

More appropriately, the system could be described as a means of automatically providing loans or grants to the government of a given ACP country when exports of products having significant impact on its economy drop. All loans are interest-free.

The EC countries are in no way committed either to buying minimum amounts of the products involved or to paying minimum prices. Determination of both is left entirely to market forces, a rather different state of affairs from that envisaged by the developing countries in their proposals for a new eco-

Removing cocoa beans from pods in Nigeria. Cocoa ranks among the top agricultural exports from Lomé Convention nations to the EC. Together with coffee, tea, and spices, it accounted for half the $3.6 billion worth of such exports in 1975.

Continued on page 11

World Grain Supply, Stocks, And Crop Estimates Rise

The 1976/77 world grain situation continues to shift toward greater supply resulting from the record 1976 production of an estimated 1,441 million metric tons of wheat, coarse grains, and rice—more than 100 million tons above 1975's. This bumper crop will add about 55 million tons to stocks, or an increase of over 40 percent above the carryover from the 1975/76 season, according to a USDA February report[1] that revised projections of mid-December 1976 .

Harvested area and yields of wheat and coarse grains reached new highs in 1976, with most of the increase registered outside the United States. Since the December forecast, wheat and coarse grain production estimates have moved upward about 7 million tons, while the ending stock estimate has climbed about 11 million tons, with most of the buildup occurring in wheat.

World rice output in 1976 is estimated at 7.5 million tons under last year's record crop. World rice trade in 1977 is expected to remain close to year-earlier levels.

A preliminary look ahead for wheat and coarse grains in 1977/78 indicates that recent low world prices for most grains may cause some reduction in grain area, particularly for wheat.

Significant soil-moisture deficiencies continue in large portions of the U.S. grain belt—and in the Canadian prairies —causing concern about U.S. winter wheat and spring-planted crops.

In the USSR, soil moisture conditions through the end of 1976 were mostly favorable to winter grains. However, a sharp temperature drop during the first and third weeks of January may have affected certain areas where the snow-cover was light.

In India, virtually no rain has fallen in most areas since mid-September and projections point to a dropoff in spring-harvested grain crops.

Relative price levels between grains and other competing crops are a major factor affecting world grain area in 1977. Still-low world prices will no doubt lead to smaller grain plantings in major foreign exporting countries, with reductions in wheat likely as producers plant more coarse grains or competing nongrain crops. Barring significant strengthening of world wheat prices, wheat sowings will probably decline substantially in Argentina. Wheat sowings also could be down in Canada, where planting conditions were ideal in 1976, while Australia's wheat area should be about the same or slightly higher than in 1976.

Early prospects for Western Europe's 1977 grain crops are mixed. Winter grains in France and West Germany are generally good, but the United Kingdom, Italy, and Portugal experienced difficulties at planting time that led to reductions in winter grain areas.

Estimates of world coarse grain trade in the 1976/77 marketing year continue high, mainly because of the effect of the 1976 summer drought in Europe and growing feed demands in some countries. The wheat trade import estimate for Western Europe has been reduced from the earlier assessment, but this has been offset by an apparent stepup of wheat imports by the People's Republic of China (PRC) could be significant.

Despite the developing stock buildup, world grain prices have strengthened somewhat in recent weeks, partly because of concern over 1977 crop prospects and a tendency among producers in some exporting countries to hold their grain off the market.

Additionally, strong demand and prices for oilseed meals have had a strengthening effect on grain prices. Another recent factor is the upswing in corn prices because of weather-related transportation problems in the United States. These price gains for corn and other feedstuffs have had a buoying effect on wheat, especially since the wheat/corn price relationship drew unusually close together during the latter part of 1976.

The record 1976 world grain crop includes estimates of 406.8 million tons of wheat, 686.9 million of coarse grains, and 347.4 million of rice. This amounts to a combined increase of about 104 million tons above production of a year earlier.

The current estimate for world wheat and coarse grain production in 1976 is 1,093 million tons, up 7 million tons from the mid-December forecast.

Latest projections foresee a world wheat and coarse grain stock buildup during the 1976/77 season of about 57

[1] **"World Grain: Review of 1976/77 Situation and Preliminary Look at 1977/78 Crop Prospects," FG1-77, February 1, 1977.**

EXPORTS NOT HALTED BY WEATHER, USDA SAYS

Despite transportation problems resulting from severe icing on the Mississippi and Ohio Rivers north of Cairo, Ill., foreign customers can be assured of continued supplies of U.S. farm products, according to a recent assessment by the U.S. Department of Agriculture.

Some U.S. corn and soybean exports have been slowed by weather-related problems. Approximately 250 grain-laden barges are trapped in an ice gorge between St. Louis, Mo., and Cairo—and this situation could continue for the next several weeks. Some increases in transportation costs of these commodities occurred when exporters switched from barge to rail transportation in moving large quantities of cargo to New Orleans and other Mississippi Gulf ports. Traders are considering alternate ports if these conditions worsen, USDA said.

Some corn and soybean stocks, that usually move by barge at this time of the year, are abnormally restricted. While experiencing hardships and some short-term delays, other grain areas in the Midwest are not suffering abnormal transportation problems. Wheat is moving normally to west gulf and west coast ports. According to traders of soybeans and corn, Grain Exchange prices are not seriously affected by the situation.

However, f.o.b. port prices have increased because of the shift in transportation means.

The review of the effects of the severe winter on U.S. farm export movement was conducted by the Foreign Agricultural Service, Agricultural Marketing Service, and Economic Research Service.

million tons, more than 11 million tons higher since the last assessment. The United States will account for about 7 million tons of this further increase.

Probably the most significant change recently in the global supply-demand situation for wheat and coarse grains has occurred in the United States. Here, estimates in late January resulted in a nearly 4-million-ton upward adjustment in the 1976 coarse grain output, to 193.1 million tons, and a decrease of about 3.4 million tons in 1976/77 domestic use and exports.

Wheat and coarse grain production estimates for Western and Eastern Europe have jumped about 1 million tons since the last report. Total production estimates for Canada and Argentina now stand at nearly 45 million and 26 million tons, respectively.

Argentina's wheat situation has recently been complicated by losses due to heavy rains at harvest. Consequently, that crop is now expected to reach about 11 million tons, compared with the 12 million tons predicted in mid-December. Australia's wheat crop estimate is placed at 11.6 million tons, up 1.6 million tons since the last forecast.

The Soviet Union recently announced that its total 1976 grain crops—including miscellaneous grains, pulses, and rice—reached 223.8 million tons, slightly above the previous record of 222.5 million tons set in 1974.

In the face of bumper crops throughout many of the world's wheat-importing areas, wheat trade is off considerably. Estimated world wheat imports, including flour, for July 1976-June 1977 are down 300,000 tons since the December forecast to 58.6 million tons (excluding intra-EC trade). The reduced imports estimated for Western Europe are offset by an increase in estimated imports by the PRC as a result of recent unexpected purchases.

The estimate of U.S. wheat exports has fallen by about 600,000 tons to 26.3 million tons, while that for other major exporting countries remains about the same.

The outlook for coarse grain trade is essentially unchanged since the earlier assessment. Excluding intra-European Community trade, world coarse grain imports are now estimated at 78.7 million tons, up 800,000 tons from the previous forecast. An estimated 300,000-ton increase for Western Europe was offset by an almost equal decline for Eastern Europe. Japanese imports account for 100,000 tons of the gain while the rest is made up by increases from smaller importing countries.

The 1976 world rice crop,[2] despite a downturn from the record harvest of a year ago, is still the second largest crop ever produced.

Many major producer countries experienced the usual damaging effect of weather in 1976 following near-perfect growing conditions for the 1975 crop.

Major production declines in 1976 are expected to occur in India, with a 6-million-ton drop from its record 1975 crop of 72.8 million tons in Japan, with a 1.8-million-ton decline from the year-earlier level of 16.5 million tons; and in the United States, with about a half-million-ton drop from its 1975 record of 5.8 million tons.

These major decreases and others are partly offset by estimated increases in Burma's 1976 production, up about 700,000 tons to 9.9 million tons; and in Bangladesh's, up about 300,000 tons to a record 19.1 million tons.

The reduced rice production prospects for 1976/77 will probably have little impact on calendar 1977 trade levels—projected at 7.6 million tons, compared with 1976's 7.5 million tons—primarily because the countries with the greatest declines normally do not import rice to cover production shortfalls.

Pakistan's rice crop is down somewhat this year, but the need to maintain foreign exchange earnings will dictate an aggressive export policy again in 1977. Thailand's 1977 export target of 1.1 million tons is markedly below its 1976 export level of 1.9 million tons.

[2] Production figures on a paddy basis; trade and stock on a milled basis.

CHINA TO IMPORT MORE GRAIN IN 1977

Recent heavy grain purchases by the People's Republic of China (PRC) are bringing this year's estimated total grain imports well above last year's record low of 2.3 million metric tons.

The last time PRC grain purchases fell below 4 million tons signaled the beginning of a 3-year period of heavy buying.

The PRC has just purchased 1.5 million tons of wheat from Canada for shipment beginning in March. China also is reported to have purchased at least an additional 100,000 tons and possibly as much as 300,000-400,000 tons of Argentine wheat, a part or all of which was from private exporting firms.

China originally purchased 500,000 tons of Australian wheat in November 1976, 750,000 tons of Canadian, and 200,000 tons of Argentine wheat, all for February-June 1977 delivery. At that time the Chinese apparently planned to buy more grain in the late spring or early summer for delivery during the last 6 months of 1977, although it did not then appear that more grain would be required for near-term delivery.

It is believed that some combination of a drawdown in stocks in 1976, a mediocre fall harvest last year, an unusually cold winter thus far in 1977, as well as possible delays in procuring grain from the 1976 crop may have been responsible for China's reentry into the grain market at this time.

As a result of the recent purchases, China's total wheat imports for the July 1976-June 1977 season are currently estimated at 3.5 million tons.

Imports during 1976/77 (see table) are expected to be about 50 percent greater than in 1975/76, when imports were the lowest since 1960/61. The previous low of 3 million tons in 1971/72, was followed by 3 consecutive years of near-record imports, which included 1.5 million tons of U.S. wheat and corn in 1972/73, 5 million tons in 1973/74, and 1.5 million tons in 1974/75. China has not purchased U.S. grain since 1974.

PRC IMPORTS OF GRAIN
(Million metric tons)

1961/62-1965/66 average	5.8
1966/67-1970/71 average	4.2
1971/72	3.0
1972/73	6.3
1973/74	7.9
1974/75	6.0
1975/76	2.3
1976/77 (preliminary)	3.5

Ireland's Agricultural Output On Road Toward Recovery

By ROBIN F. MOSSE
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Cattle on farm in Ireland.

IRELAND'S GROSS agricultural output appears to be on the road toward a cautious recovery with an increase of about 3 percent predicted for 1977, following an estimated decline of about 8 percent during 1976.

The sharp 1976 rollback came on the heels of a peak agricultural output in 1975. That record was achieved, however, at the cost of a massive slaughter of breeding stock by farmers discouraged during the 1974 European livestock recession, and observers do not see Irish agricultural production reaching the 1975 level before 1979.

Because beef cattle and dairy production account for about two-thirds of Ireland's gross agricultural output, the progress of the country's recovery is primarily dependent on rebuilding cattle stocks.

Brendan Kearney of Ireland's Economics and Rural Welfare Research Center of the Agricultural Institute forecasts a rise of 2-3 percent in the volume of agricultural output during 1977. Also, he predicts an increase of about 21 percent in the value of Ireland's gross agricultural output, resulting mostly from higher cattle prices.

The Government, in a recent Green Paper—"Economics & Social Development 1976-1980"—sees gross agricultural output growing by 6 percent a year between 1977 and 1980, compared with 3.2 percent per year during 1971-76. This assumes, among other factors, a substantial increase in inputs of farm materials, and significant improvement in Irish economic conditions generally.

However, the big drop in the cow herd since 1974 and the continuing cautious approach by farmers toward expansion will tend to hold back initial growth, which probably will be faster during the end of the 1977-80 period. Thus, an average advance of about half the estimated potential and in line with that of the previous 5 years—3.2 percent per year—appears more likely. At this rate, Irish agricultural output should be back up to the 1975 level again by 1979.

Kearney sees farm income jumping about 20 percent in 1977, primarily because of higher cattle prices. However, assuming an inflation rate similar to the 21 percent for 1976, the real income will probably remain static.

Despite reduced beef and cattle disposals, farm income in 1976 was up about 10 percent over that of 1975, but after deducting for inflation, a decline in real income was apparent.

A recovery in producer prices, evident early in 1975, continued into 1976 with the Agricultural Price Index (base 1953=100) rising 15 percent from December 1975 to June 1976.

Beef production in 1977 is expected to drop slightly, although some buildup in cattle numbers should be evident by the end of the year.

Cattle prices are expected to continue to rise steadily and Kearney forecasts that beef steer (liveweight) prices by 1980 will increase more than 50 percent above current market levels to a range of £42-£50[1] per long hundredweight (cwt)—or approximately the equivalent of 62-74 cents per U.S. pound at the current exchange rate. This should encourage a return to beef production. However, a buildup of livestock numbers approaching the rate that preceeded the 1974 slump is unlikely, and observers doubt Irish cattle numbers and production will return to 1974/75 levels before 1980.

Between June 1972 and June 1974, Irish farmers, confident of an EC bonanza, built up the cattle herd to a record 7.21 million head, an increase of 12.1 percent. But with the onset of a worldwide oversupply situation, farmers subsequently began selling off their herds. By June 1976, cattle numbers had declined 7.3 percent to 6.69 million head, and Kearney predicts a 30 percent decline in the total 1976 cattle output, compared to 1975. However, the rise in 1976 cattle prices virtually offset the reduced output so the value of cattle production was similar to that of 1975.

Since 1975, a lucrative export trade with Italy has been established. More than 5 percent of the calf crop, consisting of the best beef calves, was exported in 1975 and a larger number probably was exported in 1976. Continuation of this upward trend in calf exports could seriously hamper the rebuilding of Irish cattle numbers, and consequently, growth in agricultural output.

[1] In early December 1976, £1=US$1.65.

While beef production is expected to drop in 1977, Kearney predicts the output of sheep and poultry to be about the same as in 1976—perhaps, slightly lower for sheep. Hog output is forecast by the Irish Pigs and Bacon Commission to be 6 percent above 1976's levels.

Kearney estimates that average sheep prices in 1976 rose some 40 percent but, because of a continuing decline in the breeding herd, production was about 10 percent lower than in 1975. Sheep numbers have decreased steadily since 1972, and unless the European Community enacts a Common Agricultural Policy (CAP) for sheepmeat, which would provide farmers guaranteed floor prices and freer trade within the Community, sheep numbers are not expected to increase in the near future.

Hog production rose 16 percent in volume and 39 percent in value in 1976, according to Kearney. But the hog price/feed cost ratio dropped sharply during 1976, and further expansion in hog numbers appears unlikely in the immediate future. Hog numbers reached a low in April 1975 and 787,300 head —compared with 1.20 million head in June 1972—but their numbers commenced recovery in mid-1975, peaking by mid-1976.

With higher prices mainly accounting for the increased value of Ireland's gross output, manufacturing milk output in 1976 rose 6.5 percent, and milk prices climbed 14 percent, giving an upturn of 20 percent. Milk for fluid consumption rose an estimated 30 percent in price but remained static in volume. This suggests a 5 percent rise in the volume of total milk output to a record 808 million imperial gallons[2] in 1976.

Kearney forecasts an increase of about 5 percent in milk production for 1977 due more to better management and breeding than to cow numbers, which declined about 8 percent between June 1974 and June 1976.

Hectareage of most crops is expected to remain static in 1977, although some increase in feed barley plantings is possible because of a campaign by the Government and farmers' organizations to persuade farmers to plant more cereals. The increase in cereal plantings probably will not exceed 8 percent, which would bring Ireland's total cereal area to about 367,000 hectares in

[2] One imperial gallon weighs 10.32 pounds.

IRISH CEREAL CROP ESTIMATES TAKE A DIP

As Ireland's cereal crop estimates for 1976/77 continue to be revised downward to under 1.2 million metric tons, a sharp increase in grain imports now appears certain with a large proportion coming from outside the European Community, most notably from the United States.

Estimates—although still provisional—of Ireland's 1976/77 (July-June) grain imports from the United States project a one-third increase over the preceding year, up from 165,000 metric tons to 220,000. Total Irish grain imports are expected to jump about 20 percent above 1975/76, rising from 690,000 to 823,000 tons. However, market prices and the level of EC levies will determine the amounts of imports possible from the United States.

Earlier cereal crop estimates called for an actual increase—as high as 1,488,000 tons—for 1976/77, but by November 1976 the forecast figures were pointing down, toward a total grain production of about 1,361,000 tons, compared with 1,282,000 in 1975/76 and 1,440,000 in 1974/75.

For wheat and oats, the 1976/77 projections read 198,000 tons (the same as 1975/76) and 127,000 (a 41,000-ton decrease), respectively. But the biggest decline is seen for barley production, which is predicted to drop sharply from 987,000 tons in 1975/76 to 843,000 in 1976/77.

Some of the factors apparently contributing to the slippage of cereal crop estimates were a dry spring, July's heavy rains that particularly affected barley plantings, "yellow rust" damage, and aphid infestations. The expected downturn in cereal production plus a decline in the French corn crop have heightened the need for more grain imports in the coming year.

Estimates by the Irish Central Statistics Office also have been lowered for the 1975/76 harvest of wheat and oats. Wheat production is placed at 207,000 tons, down from 245,000 in 1974/75 while the oats crop is pegged at 168,000 tons—down from earlier estimates but still an 11,000-ton increase over 1974/75.

The fall in feedgrain output is likely to raise imports of barley—traditionally the basic ingredient of animal feed in Ireland—more than imports of other feedgrains.

Since feedgrain production declined, imports will increase. The United States has an excellent opportunity to increase feedgrain exports to Ireland. However, final determination of which feedgrain is imported from where will depend upon market forces.

For the fourth straight year, an increase in Irish cereal plantings is forecast for 1977/78. However, during the past 3 years the end result was either stagnation or decline. But with smaller cattle numbers, more available land, attractive prices, and encouragement from the Government and farmers' organizations, some increase appears probable —particularly in barley plantings, which is predicted to expand from 237,400 hectares in 1975/76 to 246,500 in 1976/77. Ireland's total cereal area in 1976/77 is estimated at 339,600 hectares, an upturn of 4,300 over the previous year.

Feed consumption in 1976/77 is foreseen remaining at about the 1975/76 level, which, in turn, was only marginally above that of 1974/75 despite an 18 percent increase in the number of hogs, which account for about 50 percent of Irish feed consumption. A mild winter and ample fodder supplies apparently reduced concentrate feeding to cattle and sheep, and smaller stocks of cattle and sheep resulted in less intensive stocking rates.

With potato prices high and meat prices rising fast, flour millers are hoping that the 1976/77 consumption of wheat for food will remain close to the high level of 1975/76. Then, consumer subidies plus the potato shortage and sharp rise in potato prices led to an increase of just over 2 percent in consumption of wheat for food, reversing the recent trend toward lower food consumption of wheat.

1977/78 compared to 339,600 in 1976/77. The high prices of the past 2 years may also result in another substantial rise in potato plantings.

Another necessity for growth, fertilizer use, is forecast by Kearney to rise 10-15 percent in 1977. Farm costs such as fuel and machinery are expected to shoot upward by about 15 percent, partly due to the declining value of the pound sterling.

This cautious growth contrasts with the optimistic outlook prevailing when Ireland entered the European Community in 1973. Irish agriculture at that time appeared headed for the biggest expansion in its history while major economic and social advancements appeared likely. Economists were forecasting a one-third increase in the gross volume of agricultural output by 1978 and a 75 percent rise in its value.

". . . Progress of the country's recovery is primarily dependent on rebuilding cattle stocks."

But in 1974, the European livestock industry—especially the beef sector—was hit by a recession that coincided with problems in the Irish economy. These economic troubles currently show little immediate prospects of being solved.

Agriculture accounts for about 45 percent of Ireland's exports and between 20 and 25 percent of the gross national product. With over 85 percent of Irish beef and cattle production being exported, meat and live animals provided an average 55 percent of the country's agricultural exports during 1973-75. In fact, Ireland is the largest net exporter[1] of beef and lamb in the EC. So, it is not surprising that the 1974 slump hit the Irish economy harder than any other EC country.

Among the effects of the 1974 recession were: The first decline in farm income since 1966, a sharp fall in farm investment, stagnant market prices and soaring farm costs, a near-collapse of the hog market, and a depressed lamb market. The result was a massive loss of confidence by Irish farmers. The European Community was not, after all, the farmers' fairy godmother.

[1] **Net exports are total exports, less imports.**

Farm incomes, rising an average of 5 percent per year from 1968 to 1971, jumped 38 and 32 percent in the next 2 years, respectively, before plummeting nearly 12 percent in 1974. When inflation is taken into account, the 1974 drop in real terms was about 29 percent.

The dairy industry, Ireland's second most important industry after livestock and meat, accounts for about 27 percent of the gross value of agricultural output. It was not so badly affected by the livestock crisis because of the reasonably good demand for Irish dairy products abroad and the relatively high CAP support prices.

However, the beef cattle and sheep sector, contributing about 43 percent of the gross agricultural output, was hard hit. The EC intervention system failed to support cattle prices as effectively as, for example, dairy products partly because of the large numbers of cattle suddenly offered to it.

In theory, intervention provided a floor to the market by buying at a guaranteed price all eligible cattle offered to it. However, problems still plagued farmers because the larger numbers of cattle for sale reduced competition among buyers, resulting in expanded profits for dealers, meat factories and butchers, a small decline in meat prices, and a substantial drop in cattle prices.

The lamb market was pulled down by the slump in the beef market. That decline, in turn, aggravated the chronic problems of the industry, which, because there is no EC CAP for sheep, must depend on the vagaries of the French lamb market for exports and on shipments at much lower prices to the United Kingdom.

In December 1973, hog price/feed cost ratios fell below the critical 7:1 level and by April 1974 the wholesale slaughter of breeding stock had left the hog market near collapse. Recovery, helped by a special EC subsidy, began in August 1974.

With Irish agriculture appearing very much at the mercy of market forces, farmers reacted with the mass slaughter of beef cattle and calves, breeding hogs and sheep, and—most serious of all—breeding cattle. The cattle slaughter began in the autumn of 1974 and aggravated the market situation. It continued throughout 1975, only trailing off in the spring of 1976.

Following the cattle slaughter, cattle numbers in June 1976 stood just a little above the June 1972 total of 6.44 million head. The earlier buildup of the herd was accompanied by expansion in meat processing and storage facilities, which continued even as herds were being reduced.

The 1975 cattle slaughter increased an estimated 28.6 percent from that of 1974 to 1.75 million head, producing a record 420,000 metric tons, carcass weight equivalent (cwe) of beef. Beef exports rose 36 percent to a record 330,000 tons (cwe) of which carcass beef—fresh, chilled and frozen—totaled 270,391 tons, another record. Live cattle exports increased 55.4 percent to 695,307 head.

The record slaughter and beef exports, greatly increased live cattle exports, and a slowdown in farm-cost increases helped push 1975 farm incomes up an estimated 50 percent over 1974 and 32 percent over 1973. However, after figuring for inflation, the real increases were about 33 and 13 percent, respectively.

The decline in livestock numbers was not offset by any significant increases in other sectors, such as arable crops. This reflected not only less farmer capital available for investment but an unwillingness to invest in the face of rising farm costs and an uncertain future.

". . . Irish agricultural output should be back up to the 1975 level again by 1979."

The 1974 recession caused a sharp drop in farm investment, particularly in fertilizers. Irish fertilizer use had reached a peak in fiscal 1972/73 (July-June). In the next 2 years consumption of phosphate slumped about 45 percent and potash fell 40 percent, while nitrogen consumption remained static. Fertilizer prices more than doubled between March 1973 and March 1975.

However, as producer prices began to recover in early 1975, the Agricultural Price Index rose steadily throughout the year, jumping 87 points, or 34 percent, to 343.2. And the volume of Agricultural Output Index (base 1968=100) rose nearly 16 points in record year 1975.

After a 2-year jump of 27 points, the output index fell about 8 points in 1976.

The Lomé Convention

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nomic order and international integrated commodity programs within the UNCTAD framework.

STABEX applies to 10 principal agricultural commodities and some of their products for a total of 27 agricultural products. They are—peanuts, peanut oil and cake; cocoa beans, paste and butter; coffee beans, extracts and essences or concentrates; cotton and linters; coconuts, copra, coconut oil and cake; palm nuts and kernels and their oils and cakes; raw hides, skins, and leather; wool products; fresh bananas; tea; and raw sisal. Wood products and iron ore are also covered by STABEX.

In most cases, the system becomes operative only if a given product accounted for 7.5 percent of a country's total export earnings in the preceding year. Exceptions to this rule are raw sisal, whose share of total export value need only be 5 percent, and the products of 34 least-developed ACP countries, for which only a 2.5 percent share is required.

In addition, declines in exports must be of certain specified amounts. The value of the exports of any of the potentially eligible products to the EC (but in some cases to all destinations) must fall 7.5 percent below the previous 4 years' average (2.5 percent in the case of the least-developed states) before an ACP country can request a financial transfer from the EC. Transfer of funds is not authorized, however, if the decline in earnings stems from restrictive export policies.

A fund of 375 million u.a. has been set up for STABEX for the 5 years of its duration, out of the 3.4 billion u.a. allocated by the EC for financial and technical aid to the ACP's. The 375 million u.a. are divided into five equal annual installments of 75 million u.a. If a balance remains at the end of each of the first 4 years, it is automatically carried forward to the following year. Conversely, the use in advance of up to 20 percent of the following year's installment can be authorized during each of the first 4 years.

In principle, and in order to help replenish the fund, transfers are repayable in full or in part within 5 years, provided that the export price of the commodity involved recovers. Repayment is not required, however, from 25 of the 34 least-developed states.

For 1975, the Fund approved transfers of nearly 72 million u.a., distributed among nine products and 17 countries. Nearly half of the value of transfers consisted of loans to four countries for crude timber, with the Ivory Coast receiving 15 million u.a. The Ivory Coast is one of the most prosperous of the ACP countries.

Most of the balance allocated by the fund was for outright grants, distributed as follows (in million u.a.): Peanuts, 6.6 (mostly to Niger); coffee, 13.2 (mostly to Ethiopia); cotton, 9 (mainly to Benin, formerly Dahomey, and Uganda); oilcake, 1.9 (all to Benin); crude skins, 8.5 (largely to Ethiopia and Sudan); bananas, 1.3 (all to the Somali Republic); and cocoa, 0.2. Only one repayable loan was made for agricultural products. It was 615,000 u.a. to Fiji for copra oil.

Recipient countries must inform the EC of the use to which they put the money transferred to them, but they alone decide on the use. As far as is known, recipient governments do not plan to use the money from STABEX to compensate producers for the drop in their revenue or to subsidize exports. If producers are subsidized with STABEX funds, they would be cushioned to some extent against downward price movements, which in some cases would tend to accentuate overproduction. In its present setup, however, STABEX is not likely to provide any meaningful incentive for the stabilization or expansion of either output or exports of the supposedly stabilized products. As it now operates, STABEX cannot eliminate international price fluctuations and is not equipped to sustain domestic producer prices in years of depressed international markets.

Sugar arrangements

Under the provision of a special protocol for sugar, the Community undertakes to buy up to 1.4 million tons of raw or white sugar, expressed as quotas from 13 producing ACP coun-

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EC AGRICULTURAL IMPORTS, 1973-75

Country or groups of countries	1973	1974	1975	1973-75 average	
				Value	Share of total
	Mil. dol.	*Mil. dol.*	*Mil. dol.*	*Mil. dol.*	*Percent*
United States	4,871.7	5,772.6	6,133.2	5,592.5	20.9
Lomé Convention	2,501.7	3,266.9	3,583.6	3,117.4	11.7
Mediterranean countries	2,977.0	3,047.9	3,073.1	3,032.7	11.4
Developed countries (other than United States and developed non-EC Mediterranean countries):					
European Free Trade Association	1,061.0	1,094.3	1,064.6	1,073.3	4.0
Canada	838.7	1,073.2	964.1	958.7	3.6
New Zealand	986.1	840.3	803.2	876.5	3.3
Japan, Australia, South Africa	2,138.9	1,875.2	1,858.7	1,957.6	7.3
Rest of the world:					
Latin America	4,660.0	4,946.5	4,848.9	4,817.1	18.0
Association of South East Asian Nations	1,115.7	1,542.7	1,538.8	1,399.1	5.2
Eastern Europe and Soviet Union	1,948.9	1,824.9	1,834.5	1,869.4	7.0
Other	1,949.4	2,275.6	1,847.2	2,024.0	7.6
Total EC agricultural imports from third countries	25,049.1	27,560.1	27,545.9	26,718.3	100.0
Intra-EC trade	17,333.1	20,374.0	23,545.1	20,417.4	—
Total EC agricultural imports	42,382.2	47,934.1	51,091.0	47,135.7	—

Compiled from *U.N. Trade Statistics* by FDCD, ERS.

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Hungary's Milk Output Increasing

HUNGARY's imports of Holstein-Friesian and other high-producing cows during the past 5 years are paying significant dividends.

Although the total number of cows at an estimated 760,000 head for 1976 is only slightly higher than for 1972 and is lower than 1975's 797,000 head, the country's annual milk output has jumped from 1.7 billion liters to nearly 2 billion liters during the 5-year period.

Further gains are anticipated as successive generations of domestic dairy stock, crossbred with Holstein-Friesians and other high-performance dairy stock, come to maturity.

The increase in total milk supply is expected to be reflected in a larger volume of milk available to consumers, a higher level of cheese exports, and reduced butter imports.

The drop in cow numbers from 1975 to 1976 came despite the Government's efforts to halt this decline. Owners of small farms, finding dairy operations increasingly unprofitable, accounted for the bulk of the decrease.

Milk output per cow is estimated to have increased an average of nearly 200 liters during 1976 from 2,445 liters in 1975.

Until recently, the Hungarian dairy industry was one of the least developed sectors of the country's agricultural economy. Recognizing the need to upgrade the dairy industry's performance, the Government in 1972 embarked on program of importing high-performance dairy cows, bulls, and semen to crossbreed with Hungarian spotted gray dairy cattle.

From 1972 through 1975, Hungary imported 20,573 Holstein-Friesian breeding animals, of which the United States supplied 60 percent and Canada most of the rest. During this period, an estimated 200,000 Hungarian spotted gray cows—about 25 percent of the country's cow population—were bred with imported dairy stock.

The first generations of cows resulting from the introduction of Holstein-Friesian stock have now attained milking age, and their production is nearly a third more milk per cow than the output of their Hungarian mothers.

Output of milk from crossbreeds on Hungarian State farms at 5,500-6,000 liters per cow per year is more than double the national average.

As more Hungarian cows are crossed with imported Holstein-Friesian stock, the resulting generations can be expected to outperform their mothers in milk production and contribute substantially to the country's total milk supply.

The offspring of 200,000 crossbred cows can be expected to add 100 to 200 million liters of milk—about 10 percent more—each year to the country's aggregate milk supply. As more cows of domestic breeds are brought into the breeding program and as successive generations of crossbred cows arrive at milking age, the country's total milk production can expand sharply.

The increased flow of milk will necessitate expansion and new construction in the country's milk processing industry, including new plans for handling fresh milk and production of butter, cheese, and milk powder.

During 1976, Hungary continued its foreign purchases of Holstein-Friesian breeding stock, but bought most of its animals from Western Europe rather than from the United States and Canada.

Faced with higher feed prices and government subsidies for selling unneeded dairy animals, many breeders in West European countries during 1976 offered Holstein-Friesian stock at prices substantially below those asked for Holstein-Friesian stock in the United States and Canada.

Although these lower priced animals produce less milk than their U.S. and Canadian counterparts, their output is significantly higher than that of Hungarian dairy cows.

—NICHOLAS M. THUROCZY
U.S. Agricultural Attaché, Vienna

Lomé Convention

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tries. Most of these imports go into the United Kingdom.

The EC guarantees a minimum price for these imports. The minimum price is negotiated annually by the EC and the ACP's within a price-range operative in the EC. The guaranteed price for April 1, 1976-June 30, 1977, is 267.0 u.a. per ton for raw sugar and 341.4 u.a. for white sugar. No time limit has been set on the duration of the sugar agreement.

Correction. "Israel's 1976/77 Citrus Output," *Foreign Agriculture*, page 15, January 31, 1977. Figure in line 18 should read 570,000 tons.

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